

# CRS Report for Congress

## Japan-U.S. Relations: Issues for Congress

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**Prepared for Members and  
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# Japan-U.S. Relations: Issues for Congress

## Summary

The post-World War II U.S.-Japan alliance has long been an anchor of the U.S. security role in East Asia. The alliance, with its access to bases in Japan, where about 53,000 U.S. troops are stationed, facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy. For Japan, the alliance and the U.S. nuclear umbrella provide maneuvering room in dealing with its neighbors, particularly China and North Korea.

The Bush Administration initially made significant strides in its goals of broadening U.S.-Japan strategic cooperation and encouraging Japan to assume a more active international role. Following the September 11, 2001 terrorist attacks, Japan made its first-ever military deployments in non-combat support of U.S. and allied forces in Afghanistan. In 2004 Tokyo sent non-combat troops to Iraq, despite considerable domestic opposition. In 2005 the United States and Japan announced a sweeping new agreement to strengthen military cooperation. The plan calls for U.S. forces to be realigned and Japan to take on a more active (non-combat) role in maintaining regional and global security.

The ruling party's historic defeat in Upper House elections in July 2007 may slow some of this cooperation. As Prime Minister Yasuo Fukuda attempts to restore his party's leadership, some of Koizumi and Abe's platform may be placed on hold. If political jockeying weakens Tokyo's focus on U.S.-Japan relations as an aging Japanese population demands more attention to domestic economic issues, the U.S.-Japan relationship may struggle to maintain its momentum of the past several years.

Japan is one of the United States' most important economic partners. Outside of North America, it is the United States' largest export market and second-largest source of imports. Japanese firms are the United States' second-largest source of foreign direct investment, and Japanese investors are by far the largest foreign holders of U.S. treasuries, helping to finance the U.S. deficit and reduce upward pressure on U.S. interest rates. Bilateral trade friction has decreased in recent years, partly because U.S. concern about the trade deficit with Japan has been replaced by concern about a much larger deficit with China. The exception was U.S. criticism over Japan's decision in 2003 to ban imports of U.S. beef, which have since resumed.

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# Japan-U.S. Relations: Issues for Congress

## Recent Developments

**Fukuda, Bush Meet After U.S. “Delists” North Korea.** Prime Minister Yasuo Fukuda and President George Bush met ahead of the G-8 Summit, just days after the White House announced that it intended to remove North Korea from the lists of state sponsors of terrorism. (See Six-Party Talks section below for more details.) The removal, part of a series of phased actions agreed upon in the Six-Party Talks, was opposed by many in Japan who felt it disregarded Tokyo’s concerns, particularly the abduction of several Japanese citizens in the 1970s and 1980s. Bush assured Fukuda that the United States would not abandon the abductees and the two leaders agreed to cooperate on both the nuclear and abductions issues.

**Gridlock and Uncertainty in Japanese Politics.** Fukuda continues to face plummeting public approval ratings and gridlock in the divided Diet (parliament). The Upper House of the Diet, controlled by the opposition Democratic Party of Japan (DPJ), has successfully stymied several legislative initiatives from Fukuda’s Liberal Democratic Party (LDP) in an attempt to force Fukuda to call for early elections in the more-powerful Lower House. By law, the Lower House election must be held by September 2009. The government’s mismanagement of pension records have dragged his approval ratings to the 20% range, and the Prime Minister appears to have received little to no public approval boost from hosting the G-8 summit. In June, the DPJ-led Upper House passed a non-binding censure motion against Fukuda, a first in Japanese history. The following day, the LDP-led Lower House passed a confidence motion in support of Fukuda.

Despite the LDP’s woes, it appears unlikely that the DPJ, itself riven with internal conflicts, will force a general election in the summer or early fall. There are signs, however, that the DPJ is making preparations for an early dissolution of the Lower House (i.e. for elections) in 2008 or early 2009. In September, the DPJ will hold its regular election for party president. Current president Ichiro Ozawa is widely expected to easily retain his post.

**Figure 1. Map of Japan**

Source: Map Resources. Adapted by CRS.

## The Role of Congress in U.S.-Japan Relations

Congressional powers, actions, and oversight form a backdrop against which both the Administration and the Japanese government must formulate their policies. In the 109<sup>th</sup> Congress, members showed a renewed interest in U.S.-Japan relations. After holding only two Japan-specific public hearings from 2001 through 2004, Congress held four in 2005-2006. Members of Congress were particularly critical of Japan's two-year ban on imports of U.S. beef and of the Bush Administration's handling of the beef dispute. On security issues, members have expressed concern that steps taken by the Japanese government are harming U.S. interests in East Asia.

by worsening Sino-Japanese and South Korean-Japanese relations. Former Chairman of the House International Relations Committee Henry Hyde suggested in an April 2006 letter to Speaker Dennis Hastert that Prime Minister Koizumi should not address a joint session of Congress unless he pledged to stop visiting Yasukuni Shrine, which enshrines the names of several Class A war criminals from World War II, and convened a hearing on Japan's "history problem" in September 2006.

The "comfort women" controversy in the 110<sup>th</sup> Congress reignited congressional concern about revisionist views of history in Japan. In September 2007, the House passed H.Res. 121, calling on the government of Japan to "formally acknowledge, apologize, and accept historical responsibility in a clear and unequivocal manner" for its treatment of women forced to serve as prostitutes for the Japanese military during its colonization and occupation of Asia in the 1930s and 1940s. The resolution passed by voice vote and attracted 167 co-sponsors, reportedly driven in part by a June 2007 *Washington Post* advertisement signed by several Japanese legislators and academics rejecting the historical basis of the resolution. A few days later, the House also passed H.Res. 508, which praised the U.S.-Japan alliance and Japan's contributions to the effort against international terrorism. The bill was seen as an attempt to blunt the negative diplomatic impact of the former resolution. The question of historical truth and memory has emerged as a prominent theme in congressional relations with Japan. (See the "Legislation" section.)

## Major Diplomatic and Security Issues<sup>1</sup>

### Global Issues

#### Counterterrorism Cooperation.

Following the terrorist attacks of September 11, 2001, the Koizumi government initiated a series of unprecedented measures to protect American facilities in Japan and provide non-lethal, "rear area" logistical support to U.S. military operations against Al Qaeda and the Taliban in Afghanistan. The latter mainly took the form of at-sea replenishment of fuel oil and water to U.S., British, French, and other allied warships operating in the Indian Ocean. The dispatch of Japan's Maritime Self-Defense Forces (MSDF) was the first such deployment since World War II. A small flotilla of Japanese transport ships, oilers, and destroyers provided about 30% of the fuel used by U.S. and allied warships, and Japan's Air Self-Defense Force (ASDF) conducted hundreds of airlift support

#### Japan Country Data

**Population:** 127.4 million (July 2006 est.)

**% of Population over 64:** 21% (U.S. = 12.4%) (2007)

**Area:** 377,835 sq km (slightly smaller than California)

**Life Expectancy:** 82 years (2007 est.)

**Per Capita GDP:** \$33,800 (2007 est.) purchasing power parity

**Primary Export Partners:** US 22.8%, China 14.3%, South Korea 7.8%, Taiwan 6.8% (2006)

**Primary Import Partners:** China 20.5%, U.S. 12%, Saudi Arabia 6.4%, UAE 5.5%, Australia 4.8%, South Korea 4.7% (2006)

**Yen:Dollar Exchange Rate:** 117.99 (2007), 116.18 (2006), 110.2 (2005), 108.2 (2004), 115.9 (2003), 125.4 (2002)

**Foreign Exchange Reserves:** \$881 billion (2006 est.)

**Source:** CIA *World Factbook*, February 2008

<sup>1</sup> This section was written by Emma Chanlett-Avery.



missions for U.S. forces. After a suspension due to political opposition, Fukuda reinstated the Afghanistan mission in early 2008.

**Support for U.S. Policy Toward Iraq.** While strongly preferring a clear United Nations role in resolving the U.S./British confrontation with Iraq, Japan nonetheless gave almost unqualified support to the Bush Administration's position. During an open debate in the U.N. Security Council, Japan was one of only two out of 27 participating countries (the other being Australia) to support the U.S. contention that even if the U.N. inspections were strengthened and expanded, they were unlikely to lead to the elimination of Iraq's weapons of mass destruction. Since 2003, Japan has provided \$1.5 billion in grant assistance to Iraq, has pledged to provide \$3.5 billion in yen loans, and has agreed to a phased cancellation of 80% of the approximately \$7.5 billion in debt Iraq owed Japan. In addition, in January 2004, the Koizumi government deployed about 600 military personnel — mainly ground troops — to carry out humanitarian aid and reconstruction activities in Iraq. The ground troops were withdrawn from the southern area of Samawah in June-July 2006, but the air division of the Self Defense Forces (the official name of Japan's military) has expanded its mission of airlifting multinational troops and their supplies from Kuwait into Iraq. The Lower House of the Diet approved a two-year extension of the air force transport mission in May 2007, but, according to some reports, the ASDF may end its mission once U.N. authorization for multinational forces in Iraq expires in December 2008.

**North Korea and the Six-Party Talks.** As the Bush Administration has moved aggressively to reach a deal on denuclearization with North Korea in the Six-Party Talks, distance has emerged between Washington and Tokyo. Former Prime Minister Abe rose to prominence based on his hardline position on Pyongyang's responsibility to disclose the fate and/or whereabouts of several Japanese citizens abducted by North Korean agents in the 1970s and 1980s.<sup>2</sup> Japan pledged that it would not provide economic aid to North Korea without resolution of the abductees' issue. U.S. chief negotiator Christopher Hill and President Bush have given rhetorical support for Japan's position, but have also indicated that the negotiations will not be held up because of a lack of progress in Japan-North Korea bilateral issues. The abductee issue remains an emotional topic in Japan, and the opposition party has not taken a substantially different position from the LDP. Although some Japanese officials and media figures privately acknowledge that Japan may need to compromise in order to remain relevant in the ongoing talks, the political potency and widespread anger surrounding the abductees make it difficult for leaders to adopt a softer position.

Before the United States announced it planned to remove North Korea from the list of state sponsors of terrorism in June 2008 in exchange for North Korean concessions on its nuclear program, Japanese officials had expressed alarm about the anticipated removal. In the past, U.S. leaders linked North Korea's inclusion on the list to the abduction issue, although State Department officials reportedly claimed that the issue was not a legal obstacle for removal. In December 2007, the

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<sup>2</sup> For more information, see CRS Report RS22845, *North Korea's Abduction of Japanese Citizens and the Six-Party Talks*, by Emma Chanlett-Avery.

Committee on Abduction of Japanese Citizens by North Korea of the Lower House adopted a resolution urging the United States to refrain from “de-listing” North Korea. Although conservative groups in Japan have protested the move, the overall reaction has been somewhat muted. Tokyo officials maintain that U.S. and Japanese goals remain the same. During his visit to Japan for the G-8 summit, President Bush promised Fukuda that he would not forget the abductions issue.

Until the shift toward negotiation in Washington, Japan’s policy toward North Korea aligned closely with the U.S. position in the Six-Party Talks. Japan has insisted on North Korea abandoning its nuclear weapons, has taken steps to squeeze North Korea economically, and participates in the U.S.-led Proliferation Security Initiative (PSI). After North Korea test-fired several missiles in July 2006 and tested a nuclear device in October 2006, Japan strongly supported punitive United Nations Security Council resolutions that condemned the actions and called for trade restrictions. In addition, Japan imposed unilateral sanctions more stringent than the UNSC resolutions, including a ban on all North Korean ships in Japanese ports, restrictions on imports and on most North Koreans entering Japan, and a freeze on bank remittances to North Korea from the ethnic Korean community in Japan.

**United Nations Security Council Reform.** In 2004, Japan accelerated its longstanding efforts to become a permanent member of the United Nations Security Council by forming a coalition with Germany, India, and Brazil (the so-called “G-4”) to achieve non-veto membership for all four countries. Though the Bush Administration has backed Japan’s bid, it did not support the G-4 proposal and opposed taking a vote on expanding the Security Council until a “broader consensus” on reforming the entire organization can be reached. To become a member, Japan must obtain support from two-thirds (128 countries) of all U.N. member countries. Japan is the second-largest contributor to the U.N. regular budget, paying more than 20% of the total, more than twice the percentage paid by the third-largest contributor. Efforts to gain membership appear to have stalled in the past few years.

**Kyoto Protocol and Climate Change.** Tokyo has sought to highlight Japan’s leadership on environmental issues. At the Davos World Economic Forum in January 2008, Fukuda announced that he wants Japan to become a “catalyst and a locomotive” in creating a post-Kyoto framework after 2012, and that he wants “future generations to remember the new framework in association with my country.” At the 2008 G-8 summit in Hokkaido hosted by Japan, the forum agreed to work towards halving the amount of greenhouse gas emissions by 2050, marking the first time that the United States has signed on to such a goal.

Japan is the fourth-leading producer of greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Tokyo ratified in 2002, Japan is obligated to reduce its emissions to 6% below its 1990 levels by 2010. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of the plan. In 2005, Japan joined with the United States, China, India, South Korea, and Australia in the non-binding Asia-Pacific Partnership on Clean Development and Climate, which calls for cooperation on the development and diffusion of technology to combat climate change, reduce pollution, and promote energy security. Some environmentalists have criticized the arrangement for its absence of mandates — particularly on greenhouse gas emissions — and for being

a part of a suspected U.S. strategy to prevent the Kyoto Protocol from being renewed after it expires in 2012. A summit to address how to replace the Protocol is scheduled for May 2009 in Copenhagen, Denmark.

## Regional and Historical Issues

Despite underlying distrust, Tokyo's relationships with Beijing and, until recently, Seoul appear to be on a solid upward trajectory. Part of this is due to Fukuda's emphasis on developing friendly relations with Japan's neighbors; his pledge not to visit the controversial Yasukuni Shrine was perhaps the most significant in terms of improving the diplomatic atmosphere. The Shinto shrine honors Japanese soldiers who died in war, including 14 war criminals who were convicted by the International Military Tribunal for the Far East following Japan's defeat in World War II. Under former Prime Minister Koizumi (2001-2006), Japan's relations with China and South Korea suffered, largely because of his annual visits to the site. Historical issues have long dominated Japan's relationships with its neighbors, with many Asians, and particularly those in China and South Korea, still resentful of Japan's occupation policies and aggression in the World War II period.

**China.** In concert with the leadership in Beijing, which has been keen to shore up its foreign relations before the 2008 Summer Olympics, both Abe and Fukuda substantially warmed Sino-Japanese ties. Although analysts emphasize that geopolitical rivalry between China and Japan is likely to endure, the short-term outlook is positive. The past year has seen several notable accomplishments, including successful reciprocal visits by heads of state and a breakthrough agreement to jointly develop gas fields in the East China Sea, the site of long-standing territorial disputes. Driven by self interest, both sides appear to have decided to put aside nationalist rivalries for now and focus on common concerns such as regional stability to further economic development and boost already robust trading relations.

Chinese President Hu Jintao's carefully orchestrated visit to Japan in May 2008 was the first by a Chinese leader to Japan in a decade. The warmth of the visit was in stark contrast to Jiang Zemin's 1998 visit — during which he criticized publicly Japanese officials for imperial Japan's war-time aggression — and the subsequent downturn in relations under former Prime Minister Junichiro Koizumi. Notably absent from the Chinese leader's statements was a call for Japan to apologize for historical grievances, and both sides emphasized a "forward-looking" friendship. The two leaders agreed to hold annual summits, cooperate on environmental technology, and enhance cultural exchanges. Days later, after China was struck by a devastating earthquake, Japan immediately offered condolences and pledged assistance. Sixty Japanese earthquake rescue experts then were dispatched to the hard-hit Sichuan province, the first foreign team that Beijing accepted.

The official reconciliation, however, may be challenged by sentiment among the Japanese public, some political groups, and the military. In early 2008, several packages of "gyoza" meat dumplings imported into Japan from China that contained a toxic pesticide sickened scores of people. Although Chinese and Japanese officials reportedly reacted quickly, the incident renewed long-standing concerns among the Japanese public about the safety and hygiene practices for Chinese products. Further, some conservative nationalist voices have criticized the Fukuda government for

being too “soft” on Beijing and practicing “kow-tow diplomacy.” And despite official military-to-military contact in the form of reciprocal port calls, suspicion of Beijing’s motives remains high among some military officials, who report periodic Chinese military activities around Japan’s territory, including a submarine incursion in 2004 close to Okinawa and a fleet of warships near a disputed gas field.

**South Korea.** The election of Lee Myung-bak as president of South Korea appeared at the outset to improve prospects for Seoul-Tokyo relations. After his election in December 2007, Lee indicated his desire to engage in more cooperation with Japan, in contrast to his predecessor Roh Moo-hyun, whose rhetoric against Japan many claimed precluded any meaningful engagement. Lee has said he would not emphasize history issues with Japan. However, in summer 2008 a long-standing dispute over the ownership of several small islands (known as Dokdo in Korean and Takeshima in Japanese) has flared anew after reports that Japan would refer to the islands as its territory in a handbook for teachers and textbook publishers. (The islands have been administered by South Korea since 1945.) This led South Korea to recall its ambassador to Japan and rebuke the Japanese ambassador in Seoul, as well as reject an offer for talks between the two foreign ministers at a regional forum in Singapore. Although both capitals have made some attempt to quell the controversy, the weakened political standing of both leaders limits their ability to take on an issue charged with nationalist tones. In addition, fundamental disagreements on a range of issues, including how to deal with North Korea’s nuclear weapons, may challenge a full-scale revitalization of bilateral ties.

## Military Issues<sup>3</sup>

Japan and the United States are military allies under a security treaty concluded in 1951 and revised in 1960. Under the treaty, Japan grants the United States military base rights on its territory in return for a U.S. pledge to protect Japan’s security. In recent years Japan has edged closer to a more independent self-defense posture in both practice and in published security strategies. In December 2006, Japan’s Defense Agency was formally upgraded to a ministry for the first time since World War II, giving the ministry more clout in budget and policy-making decisions.

**Agreements to Deepen Cooperation.** A series of Security Consultative Committee meetings (SCC, also known as the “2+2” meeting) of the Japanese and U.S. foreign and defense ministers have outlined plans to expand the alliance beyond its existing framework. As U.S. personnel and facilities in Japan are realigned as part of the broader Pentagon strategy of deploying a more streamlined and mobile force, Japan is slated to take a more active role in contributing to global stability, primarily through increased coordination with the U.S. military. Key features of the arrangement include a reduction in the number of U.S. Marines in Japan, the relocation of a problematic air base in Okinawa, the deployment of an X-Band radar system in Japan as part of a missile defense system, expanded bilateral cooperation in training and intelligence sharing, and Japan’s acceptance of a nuclear-powered aircraft carrier in the Yokosuka Naval Base.

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<sup>3</sup> For more information on the U.S.-Japan alliance, see CRS Report RL33740, *The Changing U.S.-Japan Alliance: Implications for U.S. Interests*, by Emma Chanlett-Avery.

A statement from the “2+2” session in April 2007 reiterated many features of previous meetings, with an emphasis on intelligence sharing and ballistic missile defense cooperation. Implementation of the plan to relocate 8,000 Marines to Guam and to replace the controversial Futenma Marine Air Station in Okinawa remains slow. Many of the agreement’s most controversial elements are likely to face continued obstacles, particularly from local Japanese politicians in the areas identified to host new facilities and troops. U.S. officials say Japan will pay an estimated \$26 billion overall for the realignment initiative. Some military officials in Japan are concerned that the high cost of the realignment could result in decreased Japanese capabilities because of budgetary restraints.

**Loss of Momentum in 2007-2008.** Political shifts in Japan since 2006 appear to have slowed some of the increased cooperation in the U.S.-Japan alliance. Although ties remain strong fundamentally, the Bush Administration shift on North Korean nuclear negotiations, the July 2007 House resolution criticizing the Japanese government for past “comfort women” policies, and the apparent decision not to consider exporting the F-22 to Japan may have undermined to some degree Japanese confidence in the robustness of the alliance.<sup>4</sup> Koizumi and Abe’s platform of enhancing Japan’s role in global affairs had been encouraged by U.S. officials who saw Japan’s strategic interests aligning with their own. Implementation of the “2+2” agreements depends on Tokyo providing the necessary resources and political capital. Because the realignment and transformation initiatives involve elements that are unpopular in the localities affected, successful implementation depends on leadership from the central government. If the ruling party continues to struggle to reestablish itself, details of the hard-fought agreements designed to sustain the alliance politically may falter.

A series of high-profile alleged crimes committed by U.S. military personnel in 2007-2008 sparked public anger about the troops’ presence in Japan. Four Marines were accused of gang-raping a 19-year old in Hiroshima, another marine was accused of sexually abusing a 14-year old in Okinawa, and a sailor was charged with murdering a taxi driver in Yokosuka. U.S. officials, mindful of fall-out from a similar incident in 1995, in which three U.S. servicemen were convicted of raping a 12-year-old, cooperated with local Japanese authorities by handing over the suspects and, in the first two cases, decided to court-martial the marines when Japanese prosecutors dropped charges. The officials also announced they would undertake a review of sexual harassment training procedures for U.S. military personnel.

During the political maneuvering that followed the July Upper House elections, Japanese support of the U.S.-led Operation Enduring Freedom (OEF) in Afghanistan emerged as a key issue of contention. Although re-fueling operations were eventually resumed, the opposition parties succeeded in allowing the “Anti-terrorism Special Measures Law” authorization to expire, creating a gap in MSDF participation. Japanese participation is limited to activities related to provision of fuel and water to coalition forces. The opposition took a similar tactic for the renewal of host nation support funding. (See “Burden Sharing Issues” section below.)

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<sup>4</sup> For more information on the F-22 issue, see CRS Report RS22684, *Potential F-22 Raptor Export to Japan*, by Christopher Bolcom and Emma Chanlett-Avery.

**New International Security Partnerships.** In early 2007, Japan signed a bilateral agreement with Australia that pledges cooperation on counterterrorism, maritime security, peace-keeping operations, and disaster relief. The pact, though short of a formal military alliance, may help to establish a framework of security cooperation among Japan, Australia, the United States, and, potentially, India. Such partnerships adhere to the stated goal of “values-based diplomacy,” in which Japan plans to strengthen ties with other democracies with similar political and economic freedoms. Continuing this trend, in September 2007 Japan joined a multinational naval exercise with the United States, Australia, Singapore, and India in the area west of the Malacca Straits. The exercise reinforced two interrelated trends in Asia-Pacific defense dynamics: the U.S.-led campaign of strengthening security ties among democratic allies and the strategic countering of Chinese military power. On the sidelines of the 2007 Asia Pacific Economic Cooperation (APEC) forum, Japan, Australia, and the United States held their first trilateral meeting.

**Article 9 Restrictions.** In general, Japan’s U.S.-drafted constitution remains an obstacle to closer U.S.-Japan defense cooperation because of a prevailing constitutional interpretation of Article 9 that forbids engaging in “collective self-defense”; that is, combat cooperation with the United States against a third country. Article 9 outlaws war as a “sovereign right” of Japan and prohibits “the right of belligerency.” Whereas in the past Japanese public opinion strongly supported the limitations placed on the Self-Defense Force (SDF), this opposition has softened considerably in recent years. Abe had indicated his intention to amend some of these restrictions by reinterpreting the right of collective self defense and, eventually, amending the constitution itself. (See “Constitutional Revision.”) Fukuda is thought to be less supportive of such a change. Since 1991, Japan has allowed the SDF to participate in non-combat roles in a number of United Nations peacekeeping missions and in the U.S.-led coalition in Iraq.

**U.S. Bases on Okinawa.** The reduction of marines on Okinawa seeks to quell the political controversy that has surrounded the presence of U.S. forces on the island for years. In early 2008, the charge that a U.S. Marine sexually abused a young Japanese girl renewed public outcry against the bases that had existed since the 1995 rape of a Japanese schoolgirl by American servicemen. Though constituting less than 1% of Japan’s land mass, Okinawa currently hosts 65% of the total U.S. forces in Japan. Okinawan politicians have called for a renegotiation of the Japan-U.S. Status of Forces Agreement (SOFA) and a reduction in U.S. troop strength. The U.S. and Japanese governments oppose revising the SOFA, but have acknowledged the political demand to alleviate the burden of military presence in Okinawa. As part of the realignment of U.S. bases, U.S. officials agreed to move most aircraft and crews constituting the marine air station at Futenma to expanded facilities at Camp Schwab, located in Nago, a less-congested area of Okinawa. The agreement remains stalled, however, over a host of environmental, noise, and funding concerns.

**Burden-Sharing Issues.** The United States has pressed Japan to increase its share of the costs of American troops and bases. According to Pentagon reports, Japan has over the years provided up to \$4 billion annually in direct and indirect Host Nation Support (HNS), which constitutes about 75% of the total cost of maintaining troops in Japan. In recent years, Japanese officials have reportedly suggested that HNS be reduced on grounds that Japan is now making a greater direct contribution

to the alliance. Political divisions between the LDP-controlled Lower House and the DPJ-controlled Upper House in spring 2008 led to a delay in the implementation of a new agreement, which pledges to pay directly about 140 billion yen annually (about \$1.4 billion) through FY2010 to defray the costs of stationing troops in Japan. The Upper House rejected the bill, citing opposition to paying for “recreational” activities by the U.S. military, but the approval by the more powerful Lower House went into effect after a month’s delay. Japan pays for most of the salaries of about 25,000 Japanese employees at U.S. military installations.

**Cooperation on Missile Defense.** A U.S.-Japan program of cooperative research and development of anti-ballistic missiles began in 1999. The decision to acquire the ground-based U.S. Patriot Advanced Capability-3 (PAC-3) system and the ship-based U.S. Standard Missile-3 system was justified largely on the basis of North Korea’s missile program. In December 2005, Japan’s Defense Agency agreed that Japan will pay over \$1 billion for the project over nine years. Following North Korean missile tests in July 2006, officials announced that the deployment of the PAC-3 system to Okinawa would accelerate. In December 2007, a Japanese destroyer successfully intercepted a missile in a test exercise near Hawaii.

**Figure 2. Map of Military Facilities in Japan**



Source: Map Resources. Adapted by CRS.

## Economic Issues<sup>5</sup>

Trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress.<sup>6</sup> By the most conventional method of measurement, the United States and Japan are the world's two largest economies,<sup>7</sup> accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are intertwined by merchandise trade, trade in services, and foreign investments.

### Overview of the Bilateral Economic Relationship

Although Japan remains important economically to the United States, its importance has slid as it has been edged out by other trade partners. Japan is the United States's third-largest merchandise export market (behind Canada and Mexico) and the fourth-largest source for U.S. merchandise imports (behind Canada, Mexico, and China) as of the end of 2006. At one time Japan was the largest source of foreign direct investment in the United States, but by 2006 had fallen behind the United Kingdom. It was the ninth-largest target for U.S. foreign direct investment abroad as of the end of 2005. The United States remains Japan's largest export market and second-largest source of imports as of the end of 2006.

Japan's domestic economic conditions have influenced the U.S.-Japan economic agenda. Except for some brief periods, Japan had incurred stagnant or negative economic growth in the 1990s and the first few years of this decade. However, Japan has shown signs of achieving sustained economic recovery during the last three years. Some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached a record \$88.4 billion in 2006. In 2007, U.S. exports rose slightly and imports declined because of a depreciating dollar, the U.S. trade deficit with Japan decreased to \$82.8 billion. (See **Table 1**.)

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<sup>5</sup> This section was written by William Cooper.

<sup>6</sup> For a more complete treatment of U.S.-Japan economic ties, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by William H. Cooper.

<sup>7</sup> China's economy is now larger than Japan's by another method of measurement: purchasing power parity.



**Table 1. U.S. Trade with Japan, Selected Years**  
(\$ billions)

Year	Exports	Imports	Balances
1995	64.3	123.5	- 59.1
2000	65.3	146.6	- 81.3
2003	52.1	118.0	-66.0
2004	54.4	129.6	-75.2
2005	55.4	138.1	-82.7
2006	59.6	148.1	-88.4
2007	62.7	145.5	-82.8

**Source:** U.S. Commerce Department, Census Bureau. FT900. Exports are total exports valued on a free alongside ship (f.a.s.) basis. Imports are general imports valued on a customs basis.

Despite some outstanding issues, tensions in the U.S.-Japan bilateral economic relationship have been much lower than was the case in the 1970s, 1980s, and early 1990s. A number of factors may be contributing to this trend: Japan's economic problems in the 1990s and in the first few years of this decade changed the general U.S. perception of Japan as an economic "threat" to one of a country with problems; the rise of China as an economic power has caused U.S. policymakers to shift attention from Japan to China as a source of concern; the increased use by both Japan and the United States of the WTO as a forum for resolving trade disputes has de-politicized disputes and helped to reduce friction; and the emphasis in the bilateral relationship has shifted from economic to security matters.

## Bilateral Trade Issues

**Japan's Ban on U.S. Beef.**<sup>8</sup> In December 2003, Japan imposed a ban on imported U.S. beef in response to the discovery of the first U.S. case of bovine spongiform encephalopathy (BSE or "mad cow disease") in Washington state. In the months before the diagnosis in the United States, nearly a dozen Japanese cows infected with BSE had been discovered, creating a scandal over the Agricultural Ministry's handling of the issue (several more Japanese BSE cases have since emerged). Japan had retained the ban despite ongoing negotiations and public pressure from Bush Administration officials, a reported framework agreement (issued jointly by both governments) in October 2004 to end it, and periodic assurances afterward by Japanese officials to their U.S. counterparts that it would be lifted soon.

In December 2005 Japan lifted the ban after many months of bilateral negotiations but reimposed it in January 2006 after Japanese government inspectors found bone material among the first beef shipments to have arrived from the United States after the ban was lifted. The bone material violated the procedures U.S. and Japanese officials had agreed upon. U.S. Secretary of Agriculture Mike Johanns expressed regret that the prohibited material had entered the shipments.

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<sup>8</sup> For more information, see CRS Report RS21709, *Mad Cow Disease and U.S. Beef Trade*, by Charles Hanrahan and Geoffrey Becker.

In July 2006, Japan announced it would resume imports of U.S. beef from cattle 20 months old or younger; the first shipments arrived in August 2006. While praising the decision, some officials have called on Japan to broaden the procedures to include beef from older cattle. Members of the 110<sup>th</sup> Congress may press Japan to lift restrictions on imports of U.S. beef further. In February 2007, Japan suspended beef shipments from a Tyson's plant in Nebraska after Japanese inspectors discovered beef from cattle older than 30 months. To date, the action has not affected other shipments of U.S. beef from Japan.

In May 2007, the World Organization for Animal Health (OIE) announced that the United States was a "controlled risk" regarding BSE, and the U.S. Department of Agriculture urged Japan to allow U.S. boned and boneless beef from cattle older than 20 months to enter Japan. The Japanese government has replied that it needs to verify the results of audits of U.S. meat-packing facilities and obtain findings from the Japanese government Food Safety Commission. On August 3, 2007, Japanese officials notified their U.S. counterparts that Japan is considering allowing imports of U.S. beef from cattle up to 30 months of age. The government's recommendation would have to be approved by the independent Japan Food Commission before it could go into effect. The Japanese officials did not say how long this process would take.<sup>9</sup> The change could have a major impact on U.S. exports of beef to Japan, by increasing the share of cattle eligible for export to Japan from 10% of the herd to 90%, according to one analysis. A major concern of Japanese agricultural officials is the ability to trace the origin of beef to ensure compliance with Japanese safety regulations.<sup>10</sup>

In late April 2008, the Japanese government suspended imports of beef from one U.S. supplier, National Beef, because the shipment contained beef parts that are banned under the regulations agreed to by the United States and Japan. However, Japan did not ban all beef imports from the United States, although National Beef had been the largest supplier. U.S. officials said they would investigate to see why the errant shipment took place.<sup>11</sup> It is not clear whether this episode would affect U.S. efforts to get Japan to lift all restrictions on imports of U.S. beef.

**U.S.-Japan FTA.** With the conclusion of negotiations on a U.S.-South Korean free trade agreement (KORUS FTA) on April 1, 2007, and the formation of FTAs among other East Asian countries, interest seems to have increased in the possibility of a U.S.-Japan FTA. Japanese business leaders are concerned about being adversely affected by the trade preferences that South Korean exporters would gain under the proposed KORUS FTA. In May 2007, a Japanese government advisory panel recommended that Japan undertake the formation of an economic partnership agreement (EPA), Japan's version of an FTA, with the United States. During their late April 2007 summit meeting, President Bush and Prime Minister Abe touched on the issue. According to a White House fact sheet, they agreed to exchange information about one another's FTAs and EPAs with third countries. U.S.

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<sup>9</sup> *International Trade Daily*. August 6, 2007.

<sup>10</sup> *Feedstuffs*. August 13, 2007.

<sup>11</sup> *International Trade Reporter*. May 1, 2008.

Ambassador to Japan J. Thomas Schieffer stated in a May speech before the Asia Society that the United States would welcome an FTA with Japan as long as agricultural trade is a part of it. A number of observers have argued that Japan's restrictions on agricultural imports would be a major stumbling block to an FTA.

**Insurance.** Market access in Japan for U.S. and other foreign insurance providers has been the subject of bilateral trade agreements and discussion for some time. Current U.S. concerns center around making sure that Japan adheres to its agreements with the United States, especially as Japan's domestic insurance industry and government regulations of the industry are restructured. Specifically, American firms have complained that little public information is available on insurance regulations, how those regulations are developed, and how to get approval for doing business in Japan. They also assert that government regulations favor insurance companies that are tied to business conglomerates — the keiretsu — making it difficult for foreign companies to enter the market.

The United States and Japan concluded agreements in 1994 and 1996 on access to the Japanese market for U.S. providers of life and non-life insurance and also on maintaining competitive conditions for foreign providers in the specialty insurance market — cancer insurance, hospitalization, nursing care, and personal accident insurance. U.S. and Japanese officials continue to meet under those two agreements, and U.S. providers have been able to expand their presence in Japan under them, according to the Office of the U.S. Trade Representative (USTR).

However, the United States has raised concerns about Kampo, the government-owned insurance company under the Japan Postal Service, which offers insurance services that directly compete with U.S. and other privately owned providers. The United States has also raised questions about the activities of regulated and unregulated insurance cooperatives, *kyosai*, claiming that these entities do not have to adhere to the same regulations that bind traditional private insurance companies, creating an unfair competitive advantage. A Japanese government privatization framework released in July 2006 generated statements from the American Chamber of Commerce in Japan and from the American Council of Insurers arguing that the privatization plan would allow Kampo to compete with foreign insurance providers by offering new products before it has been completely privatized. On October 1, 2007, the Japanese government began the privatization, a process that is expected to last ten years. U.S. industry and U.S. policymakers have indicated they will continue to monitor the privatization to make sure U.S. service providers are not placed at a competitive disadvantage in the Japanese market.

**The Byrd Amendment.** Japan, together with other major trading partners, challenged U.S. trade laws and actions in the World Trade Organization (WTO). For example, Japan and others challenged the so-called Byrd Amendment (which allows revenues from countervailing duty and antidumping orders to be distributed to those who had been injured). The WTO ruled in Japan's favor. In November 2004, the WTO authorized Japan and the other complainant-countries to impose sanctions against the United States. In September 2005, Japan imposed 15% tariffs on selected imports of U.S. steel products as retaliation, joining the EU and Canada. It is the first time that Japan had imposed punitive tariffs on U.S. products. In the meantime, a repeal of the Byrd Amendment was included in the conference report for S. 1932, the

Deficit Reduction Act of 2005, that was signed by the President into law (P.L. 109-171) on February 8, 2006. The measure phases out the program over a period ending October 1, 2007.<sup>12</sup> Although Japan has praised the repeal of the Byrd Amendment, it criticized the delayed termination of the program and has maintained the sanctions on imports from the United States. Consequently, Japan announced in August 2006 that it would maintain the tariff sanctions until October 1, 2007, and again extended the sanctions for another year in August 2007.

**WTO Dispute.** On January 10, 2008, Japan requested permission from the WTO to impose sanctions on U.S. imports valued at around \$250 million in retaliation for the failure of the United States to comply with a WTO Appellate Body decision against the U.S. practice of “zeroing” in antidumping duty determinations. On April 21, the WTO agreed to establish a dispute panel to hear the case and the panel is expected to issue its determination within 90 days.<sup>13</sup> The practice is one under which the U.S. Department of Commerce treats prices of targeted imports that are above fair market value as zero dumping margin rather than a negative margin. It results in higher overall dumping margins and U.S. trading partners have claimed and the WTO has ruled that the practice violates WTO rules.<sup>14</sup>

**The Doha Development Agenda.** Japan and the United States are major supporters of the Doha Development Agenda (DDA), the latest round of negotiations in the WTO. Yet, the two have taken divergent positions in some critical areas of the agenda. For example, the United States, Australia, and other major agricultural exporting countries have pressed for the reduction or removal of barriers to agricultural imports and subsidies of agricultural production, a position strongly resisted by Japan and the European Union. At the same time, Japan and others have argued that national antidumping laws and actions that member countries have taken should be examined during the DDA, with the possibility of changing them, a position that the United States has opposed.

In July 2006, WTO Director-General Pascal Lamy suspended the negotiations because, among other reasons, the major participants could not agree on the modalities that negotiators would use to determine how much they would liberalize their agricultural markets and reduce agricultural subsidies. Negotiators have been meeting in smaller groups to try to restart the talks. The resumption of negotiations will depend in large part on whether the United States and Japan, along with the European Union and developing countries, can resolve their differences.

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<sup>12</sup> For more information on the Byrd Amendment, see CRS Report RL33045, *The Continued Dumping and Subsidy Offset Act (“Byrd Amendment”)*, by Jeanne J. Grimmett and Vivian C. Jones.

<sup>13</sup> *International Trade Daily*. April 21, 2008.

<sup>14</sup> *International Trade Reporter*. January 17, 2008.

## Japanese Politics<sup>15</sup>

### Background

In general, Japan's political peculiarities both constrain and enhance U.S. influence over Japanese policy. Compared to most industrialized democracies, the Japanese parliament is structurally weak, as is the office of the prime minister and his cabinet. Though former Prime Minister Koizumi and his immediate predecessors increased politicians' influence relative to Japan's bureaucrats, with important exceptions Japan's policymaking process tends to be compartmentalized and bureaucratized, making it difficult to make trade-offs among competing constituencies on divisive issues. The result is often paralysis or incremental changes at the margins of policy. On some issues this can provide an opening to use foreign pressure (*gaiatsu*) to break policy logjams.

On the other hand, the nature of Japan's policymaking process often makes it difficult for Japanese leaders to reach controversial agreements with foreign countries. Japan's structural debilities also have tended to retard its ability to act decisively and proactively in the international sphere — often to the frustration of the United States — though this characteristic is less pronounced today than the 1990s.

**Japan's First Experience with a Divided Parliament.** Prime Minister Yasuo Fukuda, a pragmatic veteran of the ruling Liberal Democratic Party (LDP), assumed office in September 2007 after his predecessor, Shinzo Abe, resigned suddenly. Abe's resignation was preceded by a major electoral defeat in parliamentary elections at the hands of the Democratic Party of Japan (DPJ), the largest opposition party. As a result, the DPJ claimed control of the Upper House, marking the first time that the LDP has lost power in the less-powerful chamber of Japan's bicameral legislature. The LDP still comfortably controls the more powerful Lower House in a coalition with the smaller Komei ("Clean Government") party. DPJ leader Ichiro Ozawa has succeeded in constructing procedural obstacles to block parts of the LDP's agenda, but a series of political missteps and a lack of unity in the DPJ has diminished his overall influence.

In part because of the LDP's tenuous hold on power, Fukuda is not likely to pursue Abe's legislative agenda that sought to expand Japan's ability to participate more actively in regional and global security initiatives. Abe's platform of enhancing Japan's role in global affairs had been encouraged by U.S. officials who saw alignment between Japanese and U.S. strategic interests.

**The Democratic Party of Japan (DPJ).** With its victory in the July 2007 Upper House election, the DPJ has re-emerged as a viable candidate to defeat the LDP and created an opening for a two-party system in Japan. The LDP has ruled almost continuously since its formation in 1955. The results represent a sharp reversal from the DPJ's showing in the 2005 Lower House elections, when the DPJ lost more than one-third of its strength. With this win, the DPJ hopes to build on its

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<sup>15</sup> This section was written by Mark Manyin and Emma Chanlett-Avery.

earlier progress: in several elections in the early part of the decade, the DPJ steadily increased its strength in the Diet by winning over reform-minded urban and independent voters. In the September 2005 election, however, many of these voters opted for Koizumi's LDP, in part because Koizumi was able to establish himself — rather than the DPJ — as the symbol of reform. In the July 2007 elections, however, the DPJ was able to capitalize on widespread discontent with Abe by emphasizing economic and social security issues, and succeeded in winning over large numbers of voters from the rural areas of Japan, usually an LDP stronghold.

Much of the credit for the DPJ's victory has been accorded to Ozawa's electoral strategy. Ozawa was once a top LDP leader before he defected in mid-1993 to press for sweeping reform in the Japanese political system. Since leaving the LDP, Ozawa has pushed for reforming Japan's political and economic systems, as well as adopting a more assertive and independent foreign policy. Following his selection, Ozawa stated that he would push for "a U.N.-centered national security policy" that has the Japan-U.S. alliance "as a pivot, but emphasizes Asia." In the past, Ozawa has been hampered by what many see as his top-down management style and his political opportunism.

**Constitutional Revision.** Japan's constitution was drafted in 1946 by the U.S. Occupation authorities, who then imposed it on a reluctant Japanese legislature. Since the early 1990s, previously strong public opposition to revising the constitution has gradually weakened and public opinion polls now show widespread support for some sort of revision. In October 2005, the LDP released its long-awaited draft revision of the Japanese constitution. The most notable changes reduce many — though not all — of the provisions in the war-renouncing clause (Article 9) that set limits on Japan's military activities. After renouncing war and the "threat or use of force as a means of settling international disputes," the proposed revision explicitly states that Japan "shall maintain armed forces for self-defense" that operate under the prime minister and are subject to the Diet's approval and direction. The explicit mention of a military force is designed to rectify the disconnect between the current constitution — which says that "land, sea, and air forces, as well as other war potential, will never be maintained" — and the reality that Japan possesses a Self Defense Force. More importantly, the LDP's draft appears to allow Japan to participate in collective security arrangements by stating that the armed forces "may act in international cooperation to ensure the international community's peace and security."

Both the LDP and the DPJ are split — with the DPJ's internal divisions much deeper — between relatively hawkish and pacifist wings that appear to be sparring over the question of whether or not conditions (such as United Nations backing) should be attached to the right to join collective security arrangements. In other words, the issue is not whether, but how, Article 9 should be revised, a development that is due in part to increased concerns about North Korea and China. In March 2005, Japan's House of Representatives Research Commission on the Constitution, composed of representatives from various parties, released a report indicating that over two-thirds of members generally favor constitutional provisions allowing Japan to join U.N. collective security arrangements, stipulating the Self-Defense Forces' existence, and maintaining some portion of the war-renouncing clause of Article 9. A wide majority of the commission also favored allowing women to serve as

emperor, establishing stronger privacy and environmental rights, creating a constitutional court, and revising Japan's federalist system.

Constitutional amendments must be approved by two-thirds of each chamber of the Diet, after which they are to be "submitted to the people" for majority approval. In May 2007, after over a year of debate, the Diet passed legislation detailing how a national constitutional referendum would be conducted. However, the bill was passed without any significant DPJ support. Indeed, the LDP-led coalition and the DPJ proposed separate referendum bills, dampening hopes for the two camps to cooperate on constitutional revision. Notably, according to the timetable outlined in the bill that passed, the soonest that a national referendum could be held would be three years after a referendum law is passed, i.e. 2010.

## Japan's Demographic Challenge

Japan's combination of a low birth rate, strict immigration practices, and a rapidly-ageing population present policymakers with a significant challenge. Polls suggest that Japanese women are avoiding marriage and child-bearing because of the difficulty of combining career and family in Japan; the birthrate has fallen to 1.25, far below the 2.1 rate necessary to sustain a population size. Japan's current population of 128 million is projected to fall to about 100 million by mid-century. Concerns about a huge shortfall in the labor force have grown, particularly as the elderly demand more care. Japan's National Institute of Population and Social Security Research projects that the working-age population will fall from 85 million in 2005 to 70 million by 2030. Japan's immigration policies have traditionally been strictly limited, but policy adjustments have allowed for a larger foreign labor force. Over 68,000 foreign workers came to Japan in 2006 under a government-sponsored training program, in addition to 80,000 on an extended program.<sup>16</sup> With government encouragement, some private firms offer incentives to employees with children.

## Selected Legislation

### 110<sup>th</sup> Congress

**H.R. 6497 (Hooley).** Requires the payment of compensation to members of the Armed Forces and civilian employees of the United States who were forced to perform slave labor by the Imperial Government of Japan or by corporations of Japan during World War II, or the surviving spouses of such members, and for other purposes. Referred to the Committee on Armed Services on 7/15/2008, and in addition to the Committees on the Judiciary, and Ways and Means, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

**S. 3107 (Bingaman).** Requires the payment of compensation to members of the Armed Forces and civilian employees of the United States who were forced to

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<sup>16</sup> "Foreign Labor Works for Japan," *Wall Street Journal Asia*. May 25, 2007.

perform slave labor by the Imperial Government of Japan or by corporations of Japan during World War II, or the surviving spouses of such members, and for other purposes. Referred to the Committee on Finance on 6/10/2008.

**H.R. 2886 (Knollenberg).** To address the exchange-rate misalignment of the Japanese yen with respect to the United States dollar, and for other purposes. Referred to the Committee on Ways and Means on 6/27/2008, and in addition to the Committee on Financial Services, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

**H.R. 1570 (Mica).** Provides compensation for certain World War II veterans who survived the Bataan Death March and were held as prisoners of war by the Japanese. Referred to House Committee on Armed Services on 3/19/2007.

**H.R. 3650 (Ros-Lehtinen).** Provides for the continuation of restrictions against the government of North Korea unless the President certifies to Congress that the government of North Korea has met certain benchmarks, including releasing the 15 Japanese nationals recognized as abduction victims by the National Police Agency (NPA) of Japan. Referred to the House Committee on Foreign Affairs on 9/25/2007.

**H.Res. 121 (Honda).** Expresses the sense of the House of Representatives that the Government of Japan should formally acknowledge, apologize, and accept historical responsibility in a clear and unequivocal manner for its Imperial Armed Force's coercion of young women into sexual slavery, known to the world as "comfort women," during its colonial and wartime occupation of Asia and the Pacific Islands from the 1930s through the duration of World War II. Referred to the House Committee on Foreign Affairs on 1/31/2007.

**H.Res. 508 (Saxton).** Recognizes the strong security alliance between the government of Japan and the United States and expresses appreciation to Japan for its role in enhancing stability in the Asia-Pacific region and its efforts in the global war against terrorism. Passed/agreed to in House on 9/5/2007.

**S. 1021 (Stabenow).** Addresses the exchange-rate misalignment of the Japanese yen with respect to the United States dollar, and for other purposes. Referred to Senate Committee on Finance on 3/28/2007.

**S. 1686, Sec. 6 (Landrieu).** Establishes a United States-Japan Inter-parliamentary Group to meet once per Congress with representatives of the Diet of Japan for discussion of common problems in the interest of relations between the United States and Japan. Placed on Senate Legislative Calendar under General Orders on 6/25/2007.

**S.Res. 399 (Brownback).** Expresses the sense of the Senate that certain benchmarks must be met before certain restrictions against the government of North Korea are lifted, including that the government of North Korea has released or fully accounted to the satisfaction of the government of the United States and the government of the Republic of Korea for the whereabouts of the 15 Japanese nationals recognized as abduction victims by the National Police Agency (NPA) of Japan. Referred to the Committee on Foreign Relations on 12/10/2007.